

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 NSC-10 RSC-01

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COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 SCEM-02 SCI-06 INT-08 L-03 H-03 DODE-00

PA-04 USIA-15 PRS-01 DRC-01 /205 W

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R 031759Z DEC 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 9039

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DEPARTMENT PASS AGRICULTURE FOR GOODAN, S/HARP, WEBB

E.O. 11652: N/A

TAGS: EAGR, GW

SUBJECT: IMPACT OF THE FUEL SHORTAGE ON AGRICULTURE

REF: (A) FASTO CIRCULAR 296; (B) BREMEN 0475; (C) BONN

11799; (D) BONN 12416; (E) BONN 16699; (F) BONN 16653

BEGIN SUMMARY: THE FRG IS HEAVILY DEPENDENT UPON IMPORTED OIL TO MEET THEIR ENERGY REQUIREMENTS. THE SHORT RUN IMPACT OF THE ENERGY SHORTAGE ON AGRICULTURE AND THE AGRIBUSINESS COMPLEX IS NOT EXPECTED TO BE CRITICAL THROUGH THIS WINTER AND SPRING. THIS ASSUMES THAT AGRICULTURE AND AGRICULTURE RELATED INDUSTRIES WILL BE GIVEN PRIORITY IN USE OF SCARCE ENERGY SUPPLIES. HOWEVER, A PROLONGED SHORTAGE OF ENERGY SUPPLIES CAN BE EXPECTED TO HAVE A NEGATIVE IMPACT ON AGRICULTURE PRODUCTION, PROCESSING, AND DISTRIBUTION. FURTHER, ANY SLOWDOWN IN THE GENERAL RATE OF ECONOMIC ACTIVITY IS EXPECTED TO HAVE A MAJOR IMPACT ON DEMAND, ESPECIALLY FOR COTTON, LIMITED OFFICIAL USE

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TOBACCO, AND HIGH QUALITY CONSUMER FOOD PRODUCTS. END

SUMMARY.

1. PETROLEUM ACCOUNTS FOR APPROXIMATELY 55 PERCENT OF FRG'S PRIMARY ENERGY CONSUMPTION. FRG DEPENDENCE UPON IMPORTED PETROLEUM HAS BEEN INCREASING. IN 1957, PETROLEUM ACCOUNTED FOR ABOUT 11 PERCENT OF TOTAL ENERGY REQUIREMENTS, AND THIS DEPENDENCE INCREASED TO 55 PERCENT IN 1972. THE BULK OF PETROLEUM IMPORTS ORIGINATE IN ARAB COUNTRIES.

2. THE FRG, ASSUMING A CONTINUING REAL GNP GROWTH RATE OF 4 PERCENT PER ANNUM, WILL REQUIRE AN ADDITIONAL ENERGY REQUIREMENT OF SLIGHTLY OVER 4 PERCENT, OR APPROXIMATELY THE EQUIVALENT OF 6 MILLION TONS OF OIL PER ANNUM.

3. WHILE IT IS NOT POSSIBLE AT THIS TIME TO PREDICT THE SHORTFALL IN OIL AVAILABILITY DURING 1974, IT IS PROBABLE THAT SUPPLIES WILL BE REDUCED BY AT LEAST 20 PERCENT AND POSSIBLY 40 PERCENT, OR BETWEEN 28-55 MILLION TONS OF PETROLEUM.

4. CHANCELLOR BRANDT HAS INDICATED THAT INDUSTRIAL ENERGY USES WILL RECEIVE PRIORITY. HOWEVER, THERE IS STILL STRONG CONCERN WITH THE POSSIBLE IMPACT ON INDUSTRIES HIGHLY DEPENDENT UPON OIL FOR BOTH ENERGY AND AS A RAW MATERIAL INPUT. THIS CONCERN HAS BEEN REFLECTED IN THE INDUSTRY STOCK PRICES FOR THE THREE MAJOR PETROCHEMICAL FIRMS. SINCE NOV. 1, THE STOCK VALUE OF THESE THREE FIRMS HAS EACH DECLINED BY ABOUT 12 PERCENT.

5. FERTILIZER PRODUCTION IS A HEAVY ENERGY USER. /HOWEVER, WE DO NOT EXPECT FERTILIZER SHORTAGES FOR THIS COMING CROP YEAR, BECAUSE MOST PRODUCTION NEEDS FOR THIS COMING CROP YEAR HAVE ALREADY BEEN PRODUCED. TOTAL PRODUCTION OF NITROGEN FERTILIZER WAS ABOUT 1.5 MILLION TONS IN 1972, WITH A CARRYOVER OF 350,000 TONS INTO 1973.

6. THE BASIC PETROCHEMICAL INDUSTRY IS HIGHLY DEPENDENT UPON IMPORTED NAPHTHA, A BASIC INPUT FOR THE PRODUCTION

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OF PLASTICS AND OTHER MAN-MADE FIBERS. WE ESTIMATE THAT A REDUCTION IN PETROLEUM IMPORTS OF 20-40 PERCENT WILL PROBABLY REDUCE PRODUCTION OF PETRO-BASED PRODUCTS BY 24-45 PERCENT. IN RESPONSE TO THESE SHORTAGES, MAJOR GERMAN MMF PRODUCERS HAVE ANNOUNCED PRODUCTION CUT-BACKS OF 15 PERCENT. THIS SITUATION AGGRAVATES AN ALREADY DIFFICULT SITUATION IN THAT RAW MATERIALS FOR THE MMF INDUSTRY HAVE BEEN IN SHORT SUPPLY FOR THE MAJOR PART OF

THE CURRENT YEAR. THIS SITUATION WILL PROBABLY IN THE SHORT RUN BE TO THE ADVANTAGE OF NATURAL FIBERS INCLUDING COTTON. GERMAN COTTON SPINNING INDUSTRY IS NOT VERY DEPENDENT UPON OIL, AND SO FAR NO NEGATIVE EFFECTS OF THE OIL CRISIS HAVE BEEN NOTICED. IN THE LONGER RUN, A SLOWDOWN IN THE ECONOMY DUE TO THE ENERGY CRISIS IS EXPECTED TO HAVE A NEGATIVE IMPACT ON TEXTILE DEMAND, WHICH IS HIGHLY SENSITIVE TO A REDUCTION IN CONSUMER PURCHASING POWER. ANY INCREASE IN COTTON DEMAND

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WILL PROBABLY BE TO THE BENEFIT OF U.S. AND RUSSIA, BECAUSE OF THE DIFFICULT SUPPLY SITUATION IN OTHER MAJOR COTTON PRODUCING COUNTRIES. BUNKER OIL SHORTAGES COULD SLOW DOWN ARRIVALS, BUT STOCKS ARE LARGE ENOUGH TO TIDE INDUSTRY OVER DELAYS, EXCEPT FOR SOME SPECIFIC GRADES WHICH MIGHT BE IN SHORT SUPPLY.

7. IMPORTERS OF GRAINS, SOYBEANS, TOBACCO AND OTHER BULK COMMODITIES ARE NOT PRESENTLY OVERLY CONCERNED REGARDING ARRIVALS AND INTERNAL DISTRIBUTION. HOWEVER, THE POS-

SIBILITY OF BUNKER OIL SHORTAGES IS BEING REFLECTED IN NEW CONTRACTS BY COASTAL AND RIVER VESSELS, WHICH OFTEN SPECIFY THE CONTRACTS TO BE NULL AND VOID IN THE ABSENCE OF ADEQUATE DIESEL FUEL SUPPLIES. A COLD WINTER AND A PROLONGED FREEZE OF THE INLAND WATERWAYS COULD BE EXPECTED TO FURTHER COMPLICATE THE PROBLEM BROUGHT ABOUT BY THE ENERGY CRISIS.

8. BULK USERS OF IMPORTED AGRICULTURAL PRODUCTS, INCLUDING FEED MANUFACTURERS, MILLERS, SOYBEAN CRUSHERS AND THE CIGARETTE INDUSTRY, ARE FOR THE MOST PART LESS LIMITED OFFICIAL USE

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DIRECTLY DEPENDENT UPON OIL IMPORTS BECAUSE THEIR SOURCES OF ENERGY INCLUDE NOT ONLY PETROLEUM BUT ALSO COAL AND NATURAL GAS. THESE INDUSTRIES ARE BANKING HEAVILY ON RECEIVING PRIORITY IN THE USE OF AVAILABLE ENERGY SUPPLIES (SEE PARAGRAPH 4).

9. ONE OF THE MAJOR PRIMARY AGRICULTURAL USERS OF HEATING OIL IS THE BROILER PRODUCERS, AND THE INCREASED PRICE AND LIMITED AVAILABILITY OF HEATING OIL IS CREATING CONCERN WITHIN THE BROILER INDUSTRY AT THIS TIME. IT IS EXPECTED THAT BROILER PRODUCTION ALONG WITH OTHER PRIMARY AGRICULTURAL USERS WILL RECEIVE PRIORITY BY THE FRG IN THE DISTRIBUTION OF HEATING OIL.

10. CERTAIN SEGMENTS OF THE FOOD PROCESSING INDUSTRY ARE LARGE USERS OF FUEL OIL AND ARE CONCERNED WITH THE INCREASED COST OF ENERGY AS WELL AS THE SHORTAGE OF SUPPLIES. COST OF PRODUCTION FOR MOST GROUPS INCREASED BY BETWEEN 2 AND 4 PERCENT DUE TO HIGHER FUEL COSTS. GLASS HOUSE PRODUCTION OF FRUITS AND VEGETABLES HAS BEEN REDUCED, AND THERE HAVE BEEN REPORTS OF DELAY OF SUGAR BEETS MOVEMENT FROM FARM TO SUGAR MILLS. FOOD PROCESSING GROUPS HAVE REQUESTED GOVERNMENT AND POLITICAL PARTIES TO IMMEDIATELY INITIATE EMERGENCY PROGRAMS TO DEAL WITH THE ENERGY CRISIS. THE FOOD PROCESSING INDUSTRY ACCOUNTED FOR CONSUMPTION OF 2.8 MILLION TONS OF HEATING OIL IN 1972. THE THREE BIG USERS INCLUDE THE SUGAR INDUSTRY, BREWERIES, AND DAIRIES, WHICH TOGETHER ACCOUNTED FOR ABOUT 55 PERCENT OF THE TOTAL ENERGY REQUIREMENTS OF THE FOOD PROCESSING INDUSTRIES.

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